

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 ISO-00 SP-02 USIA-06 AID-05 NSC-05

CIEP-01 TRSE-00 SS-15 STR-04 OMB-01 CEA-01 ABF-01

IGA-02 FS-01 FRB-03 /061 W
----- 065732

P R 251300Z MAY 76

FM AMEMBASSY BRASILIA

TO SECSTATE WASHDC PRIORITY 5869

INFO AMCONSUL RIO DE JANEIRO

AMCONSUL SAO PAULO

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PASS TREASURY

E.O. 11652: N/A

TAGS: EFIN, BR

SUBJ: CUZEIRO DEVALUED AGAIN AS EXPORTS CONTINUE

DISAPPOINTING PERFORMANCE

REF: BRASILIA 3784

1. THE CUZEIRO WAS DEVALUED, EFFECTIVE MAY 24, FOR THE SEVENTH TIME THIS YEAR. THE LATEST CHANGE WAS FOR 1.794 PERCENT, BRINGING THE CUMULATIVE DEPRECIATION SO FAR IN 1976 TO 16.408 PERCENT. THE LATEST ADJUSTMENT CAME WITH A 24-DAY INTERVAL. THE NEW RATES ARE CR 10.50 PER US DOLLAR FOR BUY AND CR10.55 PER US DOLLAR FOR SELL.

2. TOGETHER WITH THE CRUZEIRO RATE ADJUSTMENT, THE NEWSPAPERS HAVE REPORTED THE PRELIMINARY EXPORT FIGURES FOR APRIL. WHILE APRIL EXPORTS WERE SLIGHTLY ABOVE MARCH'S (DOLS 735 MILLION AS COMPARED WITH DOLS 723 MILLION), TOTAL EXPORTS THIS YEAR CONTINUE TO LAG 1975 (BY ABOUT 6 PERCENT). THROUGH APRIL, TOTAL EXPORTS AMOUNTED TO DOLS 2,590 MILLION, AS AGAINST DOLS 2,757 MILLION DURING
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THE COMPARABLE PERIOD OF 1975.

COMMENT:

3. POLICY MAKERS MAINTAIN THAT THE EXPORT PERFORMANCE TO DATE IS IN LINE WITH THEIR EXPECTATIONS AND CAN BE EXPLAINED BY THE SHORTFALL IN CERTAIN KEY AGRICULTURAL COMMODITIES, PARTICULARLY SUGAR AND, TO A LESSER EXTENT, COFFEE AND SOYBEANS. THE OFFICIAL PROGNOSIS IS THAT THE EXPORTS OF THESE AND OTHER COMMODITIES (AS WELL AS MANUFACTURED PRODUCTS) WILL PICK UP SUBSTANTIALLY DURING THE SECOND HALF AND WILL MAKE POSSIBLE THE REALIZATION OF A PROJECTED DOLS 9.5 BILLION TOTAL EXPORT FIGURE FOR THE YEAR. REPORTS ARE CIRCULATING INDICATING THAT EXPORT REGISTRATION STATISTICS FOR SOYBEANS HAVE EXPERIENCED A SUSCEPTIBLE IMPROVEMENT SINCE THE EXPORT ICM TAX BASE WAS REDUCED IN LATE APRIL AS A TEMPORARY MEASURE (SEE BRASILIA 3763). THESE REPORTS PREDICT THAT BRAZIL CAN EARN AS MUCH AS DOLS 1.4. BILLION IN FOREIGN EXCHANGE IN 1976 FROM THIS SOURCE ALONE.

4. EMBASSY BELIEVES THAT A DOLS 9.5 BILLION EXPORT TARGET IS TOO OPTIMISTIC. WE CONTINUE TO MAINTAIN THAT OUR PROJECTION OF DOLS 9.0 BILLION (SEE BRASILIA 1784) IS MORE REALISTIC, REALIZING THAT EVEN THIS TARGET REQUIRES A CONSIDERABLE IMPROVEMENT IN THE EXPORT PERFORMANCE DURING THE COMING MONTHS. WITH RESPECT TO THE TRADE DEFICIT FOR THE FIRST QUADRIMESTER, UNCONFIRMED REPORTS PUT IT AT DOLS 1.1-1.2 BILLION, WITH IMPORTS FOR THE PERIOD AVERAGING AT ABOUT DOLS 900 MILLION PER MONTH -- WELL BELOW LAST YEAR'S FIGURES FOR THE SAME PERIOD (THE FINAL MARCH IMPORT FIGURE HAS STILL NOT BEEN MADE AVAILABLE WHILE THE APRIL TOTAL IS REPORTED ONLY VERY PRELIMINARY). ASSUMING, HOWEVER, THAT THESE REPORTED IMPORT DATA ARE CLOSE TO THE MARK, IT WOULD SEEM TO US EXTREMELY DIFFICULT FOR BRAZIL TO CLOSE 1976 WITH A TRADE DEFICIT OF DOLS 1.0 BILLION, WHICH PRESIDENT GEISEL CALLED LAST WEEK AS THE "MAXIMUM TOLERABLE."
CRIMMINS

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